

2009 MATERIALS MANAGEMENT DEPT. OF THE YEAR



Basic instincts drive Mountain States' forward momentum

'Hub-and-spoke' IDN masters supply chain fundamentals with IT creativity

by Rick Dana Barlow

Nearly a dozen years ago, the concept of a multistate integrated delivery network anchored by a community hospital in upper East Tennessee germinated in the minds of administrators at Johnson City (TN) Medical Center.

Armed in 1998 with a strategic plan to grow, Johnson City, located in the Northeastern corner of the state roughly 107 miles northeast of Knoxville, first acquired a small satellite hospital and then five hospitals in the region from a downsizing Columbia/HCA Healthcare Corp. to convert the plan to action.

The septet formed the nucleus of the newly minted Mountain States Health Alliance (MSHA). Johnson City served as the "hub," or major referral center, to the six "spokes" in a service system spanning 29 counties in four states that has since expanded to its present size of 15 hospitals and myriad non-acute healthcare facilities.

As Mountain States debuted and expanded, however, the IDN's materials management team faced some major hurdles to help the new organization mature and migrate to financial viability. Chief among

them: Supply costs and consumption were too high, due in part to operating under a decentralized system, which had been inherited from the initial acquisition of hospitals, according to Dale Claytore, Mountain States vice president.

Once the former Columbia/HCA hospitals forged Mountain States with Johnson City, Claytore admitted that supply and service contracts and operations experienced minimal disruption as the materials management teams at each hospital remained on staff.

"In many ways, business continued as usual for these facilities for a significant time after the acquisition," Claytore said.

But it wasn't enough.

Mountain States had a simple goal for its materials management operation – morph it into a centralized, efficient, progressive and technologically advanced supply chain system.

The process commenced in 2005 when Mountain States launched a centralized corporate materials management office that redirected buying and contracting power from each hospital to improve communication

with a single contact point and standardization as well as reduce "unauthorized" purchases. Another benefit involved location. Corporate purchasing now operates in the same building as corporate accounting and finance.

"When planning this move, there were a considerable amount of inaccurate purchase orders (POs), which resulted in 'buyer's messages,'" said Dave Begley, corporate director of materials management. "In order to net better cooperation and harmony between the two departments, we requested the two work units to be co-located. As a result, the number of buyer's messages decreased significantly."

Centralizing purchasing and contracting under corporate materials management, establishing a comprehensive vendor relations and recalls sub-department reliant on internally developed information technology tools, implementing centralized but customized-by-work-unit electronic requisitioning, using videoconferencing to strengthen its pervasive value analysis process as well as encourage vendor participation and developing a preparedness plan for crisis management represent some of the critical solutions that motivated *Healthcare Purchasing News* to name Mountain States Health Alliance's Corporate Materials Management Department its 2009 Materials Management Department of the Year.

Coming together

Even though the corporate materials management office may wield contracting and purchasing authority for Mountain States' member facilities, each hospital maintains a solid materials management connection that also feeds the organization's seven value analysis teams.

"We found that it would not be efficient for us to remove all materials management staff from all hospitals," Begley noted. "We have site managers over each location, and they have a team on site – between two to 40 team members, depending on the size of the facility – that they manage. Decisions and responsibilities lie at the corporate level and this has worked well for our organization. Our site managers are the eyes and ears for us at each

Fast Facts - Mountain States Health Alliance

Headquarters: Johnson City, TN

Facilities: 15 acute care hospitals

13 outpatient care centers

21 primary/preventive care centers

54 affiliated hospitals and nursing homes

Numerous other non-acute care facilities in a

29-county and four-state region.

Beds (licensed and average operating): 1,834 and 1,407, respectively

Inpatient Admissions (2009):

56,026 (annualized)

Outpatient Visits (2009):

1,441,250 (annualized)

Surgical cases (year): 35,824 (annualized)

Total net revenue (2009):

More than \$1 billion (estimated)

CEO: Dennis Vonderfecht

Materials Management

Corporate Director: Dave Begley

Joined organization (year):

Begley (2004), Hamby (2004), York (2005)

Directors/Managers:

Ken York, Purchasing Director

Terri Hamby, Corporate Vendor Relations Mgr.

Joey Fields, MMIS Manager

Al Salama, Corporate Contracts Manager

Steve Hobbs, Washington County Supply

Chain Manager

Employees/FTEs: 110

Conduit to CEO:

Dale Claytore, Vice President

GPO affiliation: Premier

Annual purchasing volume/supply expense (FY 09):

\$186M

Annual purchase order volume (annualized): 48,500

Department functions:

Corporate Contracts, Corporate Purchasing, Vendor

Relations & TRAAC, Materials Management

Information Systems, Supply Services, Shipping/

Receiving and External Transport.

Purchasing and contract management: Centralized

Total annual operating expenses:

\$481.4M (annualized)

Source: Mountain States Health Alliance, May 2009

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Front Row – Left to Right: Ken York, Regina Lingerfelt, Lisa Winegar, Melissa Taylor, Linda Skeen, Dale Claytore (Vice President), Terri Hamby, Dennis Vonderfecht (CEO), Linda Crowder, Sue Smith, Wanda Huskins, Carol Hudson, and Joey Fields

Back Row – Left to Right: Marty Young, Tony Leonard, Steve Hobbs, Al Salama, Robert Miller, Chuck Osborne, Sherry Hinkle, Ashley Bays, Cathy Watkins, Wes Laughlin, Teri Miller, Bill Bradford, Dennis Couch, Mark Aldeen, Kathy Hickman, David Townsend, David Bacon, Lindsey Fair, James McLaughlin, Rick Holland, Dave Begley

facility and keep us abreast as supply chain needs arise from a facility level.”

In fact, corporate materials management includes corporate contracting, corporate purchasing, materials management information systems and vendor relations and recalls. Site managers have a dotted line relationship to each facility CEO and a direct line to the corporate director of materials management, according to Terri Hamby, corporate contracts and vendor relations manager.

When assembling the staff to populate the corporate office, Claytore indicated that they purposefully recruited fresh faces that satisfied “a very high standard, in terms of education and proven work experience ... as the minimum criteria for the new corporate department.” Consequently, each facility retained its supply chain expertise to feed into the corporate office.

To avoid the pitfall of individual hospital leaders tending to focus only on their respective facilities, according to Claytore, corporate materials management instead “works with clinicians from all facilities to cultivate ideas, needs and opportunities into an organized

and democratic process” called value analysis teams (VATs). Mountain States currently supports seven VATs that specialize in operating room, clinical products, wound care, laboratory, women’s and children’s hospital, respiratory and its newest, sharps safety, for evaluation, selection and implementation.

The seven VATs focus on developing strategic vendor relationships based on physician and clinical preferences; driving deeper discounts by leveraging volume, size and commitment levels; improving standardization system-wide and establishing policies and procedures for new product requests, trials and introductions, according to Ken York, corporate purchasing director.

To bridge the clinical gap for materials management, Mountain States hired a dedicated registered nurse as a product proficient clinical value analysis coordinator who represents the entire system, York said. “MSHA benefits by having an R.N. in this role, providing clinical expertise, as well as an understanding of supply chain management,” he added. “The addition of an R.N. has strengthened our relationships with clinical team members across the system.”

Added Claytore: “Without teamwork, building relationships between existing MSHA facilities and newly acquired facilities would not be possible. This team atmosphere allows us to operate at a higher level and stay engaged on system initiatives.”

Clutter cutting

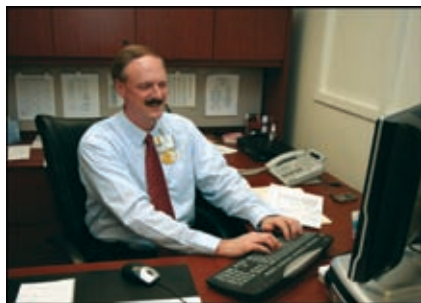
Contrary to popular belief, materials management may not be as easily defined as many people think, according to Claytore, who posited an intriguing viewpoint.

“While most think of materials management as a purchasing department, much of the day to day work conducted in materials management deals with quality assurance (QA) issues,” he stated. “Products and materials are tested or trialed by MSHA clinicians, both before purchase orders are placed and during use, to ensure there are no short-term or long-term issues that would disrupt the supply chain.”

MSHA’s materials management QA performance, which is conducted through the VATs to clinically qualify products, also hinges on the department’s contracting and purchasing productivity.

Electronic commerce, primarily through electronic data interchange (EDI) and the department’s Lawson MMIS, drives productivity efforts. In fact, 75 percent to 80 percent of MSHA’s purchase orders are transmitted via EDI with 46 vendors today. Add Lawson’s electronic fax integrator software into the mix that converts fax orders to EDI and the total jumps to approximately 90 percent to 95 percent.

See **BEST IN CLASS** on page 10



Dave Begley,
Corporate Director Materials Management



Lindsey Fair, contracts specialist, and Al Salama,
corporate contracts manager, review reports

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BEST IN CLASS from page 9

Even MSHA's requisition process, using the Lawson tool Requisition Self-Service (RSS) has pushed its system-wide paperless accomplishments to up to 85 percent from nearly 15 percent of electronically submitted orders. Since 2005, annual PO volume has soared 49 percent to 49,000 processed from 33,000 without increasing full-time equivalents.

Contracts in the pipeline also grew to 120 to 140 this year from 40 to 45 back in 2005, but a recent process improvement initiative has streamlined workflow, and improvements are already being seen, according to Claytore.

MSHA's MMIS team capitalized on technology to improve customer service by developing a variety of online software applications. For example, the MSHA Supply Formulary, which is posted on MSHA's intranet Web site, displays a clearly defined list of approved, contracted and authorized products and vendors, developed through the VATs, Claytore acknowledged. MSHA Vendors Online offers the ability to research vendor representative information. It's updated automatically each time a change is made to the Vendor Certification database, according to Hamby. By clicking on Vendor Information and selecting a company from the dropdown box, team members can see actual photos of approved representatives, contact information, authorized access areas, as well as information regarding vendor type, products, services and systems.

Through RSS, clinicians can order supplies online as a component of the Lawson system. "The software allows us to customize the supply order screens for a particular work unit, based upon their individual ordering history," Claytore indicated. RSS includes a search capability for items from the Lawson Item Master file and users can process, view and modify orders using a shopping cart format. With features including "Express Order," "Shopping List" and customized templates, ordering supplies is no longer a paperwork nightmare, according to Claytore.

QA-IT connections

The QA philosophy of Claytore's corporate and individual hospital teams can trace its roots in part to IT development.

Through internal creativity and innovation – not off-the-shelf shopping – corporate materials management activated a series of software applications designed to improve efficiency and pro-

ductivity, as well as patient care for clinicians. They include product recall, contract management and vendor credentialing applications.

Designed and developed in collaboration with IS, "The Recall, Alert and Advisory Center" a k a TRAAC, "Vendor Certification," "Vendor Badge Reader," "Vendor Scorecard" and "Contract Management System," each represent internal ingenuity aimed at customer service.

TRAAC is a centralized, automated online process designed to collect in real time critical information about product recalls, alerts and advisories to mitigate the possibility of patient and team member injury.

TRAAC can trace its origins to Claytore's travel schedule, according to Hamby. "Dale Claytore participates in several national roundtable meetings with other hospital administrators across the nation," she said. "In one such meeting, a fellow participant discussed FDA 'no-notice' inspections concerning recalls. Dale returned and asked that we develop a system to track recalls and our responses. We worked with our internal developers to design, develop and implement TRAAC."

In a bit of insider humor, the application's motto cues up the generalized and perceived reputation of materials management: "TRAAC, saving lives from the basement."

Recognizing the integral role vendors play in healthcare, MSHA's Vendor Certification Program is designed to communicate business protocols and procedures to the vendor community.

"While there are other vendor programs available for purchase, we chose to develop our own program," Hamby acknowledged. "By providing our own unique solutions, we have more flexibility and the ability to keep up with the rapid growth of MSHA." Since the implementation of the program in 2005, 982 representatives from 472 companies have been certified.

To complement the Vendor Certification Program, MSHA also developed a vendor badge reader designed to alert business own-

ers, which is how customer departments are referred to by materials management, of vendor arrivals and departures.

MSHA instructs vendors to "swipe in" at the vendor kiosk upon arrival. After validating vendor information from the database, an email is generated to the appropriate business owner notifying them that the vendor has entered the facility. The vendor sees either a "welcome" message and proceeds to his/her appointment or is instructed to see the Vendor Relations Manager, which is Hamby. The kiosk includes a PC, 15-inch monitor, keyboard, Microsoft Office Pro with Microsoft Access and Microsoft's .Net Framework applications and a badge reader stacked in a mobile cart.

The design of the vendor badge differentiates vendor reps from hospital staff, designates their approval and clearly states the areas to which they have access, according to Hamby.

To ensure reliability and veracity of vendor information in the database, materials management also created the MSHA Vendor Scorecard, which "allows us to acknowledge excellent vendors, recognize poor performance, resolve problems and identify suboptimal vendors," Hamby noted.

"The scorecard rating features allow us to calculate a score – zero to 100 percent – using information gathered on six critical areas: Purchase order fill rate, delivery, pricing, cost reduction, service and improvement/degradation," she continued. "These categories and associated weights are flexible, depending on the departments needs and include input from all departments utilizing the services of the vendor."

Hamby further indicated that because they used internal developers to create the Web-based applications, "there were no associated extra costs to the organization," such as annual, license or maintenance fees. "We have reduced man-hours lost on manual cross-checking for affected products and responding to recall notices," she added.

As MSHA continued to expand, materials management identified a need to manage the growing volume of contracts in its repertoire so working with MSHA Legal, they developed the MSHA Contract Management System (CMS) as a central repository and data management tool.

Using CMS, departmental business owners throughout the organization can analyze relative data, track costs and fa-

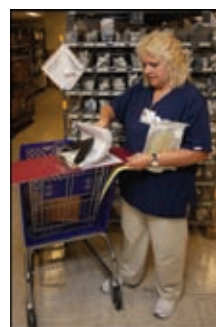
Johnson City Medical Center (JCMC) Central Supply



Chuck Osborne, inventory control supervisor



Gail Story, supply services tech, and Lisa Winegar, supply chain supervisor



Lisa Story, supply services tech

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cilitate project planning, according to Hamby. CMS includes a notification feature, designed to send designated parties expiration notices up to 180 days in advance of a contract's termination or automatic renewal. With CMS, contract workloads have become more manageable and the storage space needed for hard copy files has been reduced, she added.

"We reviewed commercial recall, contract management and vendor credentialing products. But MSHA has a unique advantage, a talented [information systems] department and materials management leadership with vision," she said. "The results are proven winners - TRAAC, CMS and Vendor Certification. Making changes [and] adaptations to our home-grown solutions is a snap. We don't have to go back to a third-party vendor for upgrades."

Other than linking to the materials management intranet page, TRAAC, Vendor Certification, Vendor Scorecard and CMS operate as independent programs and do not connect to the MMIS, according to Hamby.

To bridge the gap between MSHA's 15 facilities spread over a two-state and predominantly rural area, corporate materials management implemented videoconferencing as an alternative to face-to-face meetings.

"Video conferencing was implemented to facilitate outlying facility participation in VAT meetings," York said. "Vendors are occasionally invited to present at VAT meetings, providing information and/or demonstrations. Video conferencing has increased attendance and participation."

Savings grace

MSHA corporate materials management not only works with clinical and administrative leadership through the VATs for product

evaluations and selections but also leverages its IDN span, collective buying volume and commitment levels in conjunction with its national group purchasing organization Premier Inc. on cost control, pricing and benchmarking.

Claytore's team also strives for actual dollar savings by locally negotiated contracts and in excess of GPO qualified tiers, focusing on rebates, reprocessing, commissions and cost avoidance, according to York.

"Today's economy is taking its toll on healthcare providers and suppliers alike," Claytore noted. "In these extraordinary times, a company's financial health relies on the fitness of its operations to simplify processes and squeeze out costs when profits are lean."

For example, the group works with such departments as perioperative services and cardiac cath lab on capital expenditures, typically taking a "hard line approach on high-end physician preference products." In the physician-preference item category this fiscal year alone they have generated \$2.2 million in savings. Through contract negotiations they have achieved \$2.3 million in savings over a five-year period for OR lights, booms, integration, tables and service. Its IDN agreement for custom packs/trays amounts to \$256,000 in savings in the first year and approximately \$853,000 in savings for the full five-year contract.

Using "spend analytic services," MSHA also identified an additional \$684,000 savings on capital equipment purchases and service contracts this year over and above the \$2.2 million total.

MSHA works with a leading medical device reprocessor on a recycling and reprocessing program that has netted nearly \$320,000 in savings through the third quarter on the

way to a projected savings of \$450,000 for the fiscal year.

In fact, since MSHA began recycling and reprocessing in January 2007 it has generated nearly \$775,000 in savings and eliminated nearly 22,000 pounds of waste from local landfills, according to Claytore.

Corporate materials management, in conjunction with infection control, implemented a sharps management service that includes a container exchange program to protect the staff, reduce environmental waste and generate cost savings to boot.

"From the beginning, the infection prevention team felt they were stakeholders in this initiative," Begley said. "As a result, they played an active role in the decision making process, including a site visit to the vendor's processing facility."

Consistent with federal regulations and a Joint Commission standard, MSHA's corporate materials management department worked with IDN stakeholders to create a comprehensive plan to manage during a crisis, disaster or emergency, according to Claytore.

The Materials Management Preparedness Plan provides information, policies, procedures and key contacts to mitigate supply shortages. Among the strategies is working with its primary distributor to store three to four days worth of stock and avoid the cost of carrying too much inventory. "We have ensured that medical supplies will be available in the event of a disaster or emergency, whether local or national within a four-hour time period," Claytore indicated.

To date, thankfully, they haven't had to enact the plan outside of testing in tabletop exercises, he added. **HPN**



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